Executive Excess ’98

CEOs Gain From Massive Downsizing

Fifth Annual Executive Compensation Survey

April 23, 1998

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UNITED FOR A FAIR ECONOMY is a national, independent, non-partisan organization founded in 1994 to focus public attention and action on economic inequality in the United States—and the implications of inequality on American life and labor. United for a Fair Economy provides educational resources, works with grassroots organizations and supports creative and legislative action to reduce inequality.

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Executive Summary

1. CEOs Who Downsize Workers are Rewarded. IPS and UFE studied CEO pay at U.S. corporations that announced layoffs in 1997 of 3,000 or more workers. Of the 16 firms for which data were available,[1] all but three were rewarded last year in terms of annual compensation. Nine of the 16 increased CEO salary and bonuses by an average of 20 percent. Four of the 16 firms did not increase salary and bonus, but rewarded CEOs through generous outlays of stock options grants. Twelve of these downsizing CEOs are highlighted in **The Downsizer Dozen** section of this report.

2. Banking Executives Who Made Bad Loans in Asia Are Rewarded. CEOs of the six U.S. banks with the largest outstanding loans to Asia received raises in salary and bonus averaging about 16 percent last year. While the International Monetary Fund (IMF) is bailing out these banks, millions of workers in Asia and the United States will lose their jobs as a result of the Asia crisis.

3. CEOs Who Have Shifted Jobs to Mexico Have Benefited. CEOs of the 10 companies that have moved the most jobs from the United States to Mexico since the passage of NAFTA earned average salaries and bonuses last year of more than $3 million, a 15 percent increase over 1996. The leading job-shifter, General Electric's John Welch, made nearly $40 million in total compensation—more than his 10,000 Mexican workers combined.

4. The Response to Runaway Executive Pay is Building. Finally, this report documents a growing momentum in Congress among citizen groups and in the business community to close the wage gap. One response—the proposed Income Equity Act—would add **a half-billion dollars** in federal revenues by closing the corporate tax loophole on excessive CEO pay. On the other end of the pay scale, Congressional leaders are calling for an increase in the minimum wage, which would now stand at **$40.97** if it had increased as fast as CEO pay has increased since 1960.

A WASHINGTON MONUMENT PERSPECTIVE ON PAY: THE AVERAGE C.E.O. NOW MAKES 326 TIMES THE SALARY OF THE AVERAGE WORKER.

TED RALL

To get a good picture of the incredible expanding CEO-worker wage gap, imagine the Washington Monument. CEOs made 326 times the pay of factory workers in 1997 according to *Business Week,* a big jump from 1996, when they made 209 times as much. If the real 555-foot Washington Monument reflects the average 1997 CEO paycheck, then a scaled-down replica representing average worker pay would be only 21 inches tall.

It's shrinking fast. In 1996, it was 32 inches tall. In 1970, the Workers' Washington Monument was 13 feet, six inches tall—reflecting a CEO-worker wage ratio of 41 to one.

Back then, it would have required a pick-up truck to transport the Workers' Washington Monument. By 1996, you could carry it on an airplane and put it in the overhead luggage bin. The 1997 model fits easily into the little space under the seat.

Foreword: Closing the Wage Gap With the Income Equity Act

U.S. Representative Martin Olav Sabo

It is now commonplace to hear that these are great times for America's economy. Unemployment is near an historic low. Inflation is under control. The stock market is booming. There is one area, however, that has remained largely untouched by America's new prosperity: the persistent income gap between the top and bottom of our society. Nothing exemplifies this gap better than the large disparity between executive and worker pay.

I believe that when many Americans complain about excessive executive pay, they are not as upset about high pay as they are about the pay inequity within so may companies. Part of the American work ethic has been that when a company succeeds, workers should get their fair share. Accordingly, many people are repelled when the poorest workers have stagnant wages while executives prosper.

Unfortunately, our nation's current prosperity is not widely shared. Although some wages have begun to rise slightly, overall, the wealthiest in our nation have benefited from the strong national economy while those at the bottom of the income ladder have, for the most part, not benefited. They continue to work two or three jobs and struggle to support their families. The income gap that has been growing since the late 1970s remains with us, threatening dire consequences for our society.

If economic opportunity is not extended to all Americans, we face the possibility of becoming a nation sharply divided between winners and losers. Such a development would threaten the very fabric of our economy and society. It is therefore in our common interest for the government to address economic inequality in America.

I have proposed one way to address the income gap: using the tax code to eliminate what is essentially a subsidy for excessive executive pay. My legislation, the Income Equity Act, does this by limiting the tax deductibility for compensation to 25 times the salary of the lowest-paid worker in a firm. In other words, if the lowest-paid worker is a clerk who makes $12,000 a year, the company could deduct only $300,000 of its CEO's salary.

My bill is only a first step in closing the persistent income gap in America. This report is also an important contribution to the effort. I congratulate United for a Fair Economy and the Institute for Policy Studies on this report, and on their continuing efforts to ensure economic security for American workers.

Martin Olav Sabo represents the Fifth Congressional District of Minnesota.

Foreword: Freeze CEO Pay During Periods of Downsizing

Peter Barnes and Frank Butler

It disturbs us to open the business pages these days and see the huge and growing economic divide existing in our nation today. The rising gap between highest paid managers and ordinary workers is emblematic of a serious breakdown in our social contract.

Business guru Peter Drucker warned companies against widening pay gaps, arguing that they undermine team work and productivity. For the past decade top managers have seemed intent on ignoring this advice at all our peril.

What does it say to the remaining workers in a firm when a CEO, while laying off thousands of employees, lines his pockets with salary increases, bonuses, long-term compensation packages, stock options and personal perks.

Have these top managers become numb to the plight of people who lose their jobs? Have they lost their moral compass? Have they forgotten the concept of the common good? Do they see what such behavior does to public perceptions about big business leaders?

Since no other industrialized nation has CEO pay ratios even close to ours, it is nonsense to claim we have to do it to stay competitive in the new global economy.

We know that for most companies, laying off workers is not an easy decision. Many companies try to ease the pain of restructuring with severance pay and employment counseling. But any possible goodwill of such efforts is negated when corporate leaders are greedily rewarding themselves in the compensation game.

We believe that business leaders should share in the sacrifices of corporate restructuring and mergers by freezing their own pay during periods of massive downsizing. This would help rebuild the kind of moral leadership that U.S. businesses need to compete in the next century. And it would go a long way toward rebuilding a sense of social contract in our nation.

Peter Barnes is the founder of the mutual fund company Working Assets.
He lives in San Francisco.

Frank Butler is the retired CEO of Eastman Gelatine, a subsidiary of Eastman Kodak.
He lives in Topsfield, Massachusetts.

Introduction

Just when we thought that the yawning gap between rich and poor in America could grow no larger, the tallies come in for CEO pay in 1997. At a moment when the U.S. economy is widely reported to be doing quite well, the growing gap in executive vs. worker pay deserves to be the scandal of the year.

For the primary business sources that chart CEO pay, 1997 broke all previous compensation records. In *Business Week's* comprehensive survey (April 20, 1998), total CEO compensation surged 35 percent in 1997 over 1996. Compare this with the 2.8 percent raise for blue-collar workers and 3.8 percent raise for white-collar workers. Using *Business Week's* figures, the average CEO earned 326 times the average factory worker in 1997, up from a 209:1 ratio in 1996.

The Wall Street Journal titles its 1998 survey of executive compensation "Pay for No Performance." This reflected their conclusion that CEOs are getting top dollar no matter how they perform for shareholders. The IPS/UFE survey of CEO pay goes a step further in analyzing rising CEO pay against the backdrop of corporate performance vis-à-vis other key stakeholders in society: U.S. workers, workers in other countries, and communities as a whole.

I. CEOs Who Downsize Workers Are Rewarded

American companies are consumed in a frenzy of downsizing workers. In January of 1998, large U.S. firms slashed over 72,000 workers, more than any month since January 1996.[2] Manpower Inc. estimates that 10 percent of U.S. firms planned to lay off workers in the first quarter of 1998.[3] Yet, research by the Institute for Policy Studies and United for a Fair Economy reveals that the biggest corporate downsizers are among the companies giving the biggest compensation packages for CEOs.

This study evaluates whether a CEO was rewarded or punished during the year in which the executive announced a major layoff. It therefore focuses on the forms of compensation that reflect the level of reward (or punishment) for performance in 1997. These forms of "annual compensation" include salary, bonus, and the estimated value of options grants. While many executives took home even larger amounts by exercising stock options, these gains are not necessarily a sign of reward for performance in 1997, since the options may have been awarded several years before. Aside from some restrictions, an executive has the power to decide when to exercise stock options.

The Winners

Of the 16 downsizers surveyed, all but three were rewarded last year in terms of annual compensation.

Nine of these 16 were rewarded through increases in salary and bonus. On average, they received increases of 20 percent to $2.58 million—even higher than the average of $2.2 million for top executives surveyed by *Business Week.*

Chart 1. Salary and Bonus Increases

Company	Top Executive	Announced Layoffs	1997 Salary + Bonus ($thou)	% Change From 1996
International Paper	John T. Dillon	9,215	1,713	140
Citicorp	John Reed	9,000	4,000	15
NationsBank	Hugh McColl	6,450	4,500	11
Service Merchandise	Gary Witkin	4,810	882	2
Whirlpool	David Whitwam	4,700	2,060	47
First Bank System[4]	John Grundhofer	4,000	2,692	30
Hasbro	Alan G. Hassenfeld	3,520	1,676	19
American Express	Harvey Golub	3,300	3,469	11
V F Corp.	M.J. McDonald	3,000	2,265	1
TOTAL		47,995	23,257	
AVERAGE			2,584	20

More Winners

Another four executives received the same or less in salary and bonus, but made up for the loss through gains in options grants. Eastman Kodak CEO George Fisher, the biggest downsizer of the year with 20,100 announced job cuts, received an options grant worth an estimated $60 million. Options grants only pay off if the value of the company's stock rises. However, most economists argue that options have an intrinsic value on the day they are issued, given the likelihood that options will rise in value over time. Indeed, it is largely because of options gains that executive pay packages have skyrocketed.

Chart 2. Options Grants Increases

Company	Top Executive	Announced Layoffs	1997 Salary + Bonus ($thou)	% Change From 1996	Est. Value of 1997 Options Grants ($thou)
Woolworth	Roger Farah	9,200	2,202	-3	0
Louisiana Pacific	Mark Suwyn	3,560	830	-20	1,389
Electronic Data Systems	Lester Alberthal	3,400	869	-55	0

The Losers?

The apparent losers among the downsizers were Roger Farah of Woolworth, Lester Alberthal of EDS, and Mark Suwyn of Louisiana Pacific. These three men received cuts in salary and bonus that were not made up for by options grants.

Chart 3. The Losers

Company	Top Executive	Announced Layoffs	1997 Salary + Bonus ($thou)	% Change From 1996	Est. Value of 1997 Options Grants ($thou)
Eastman Kodak	George Fisher	20,100	2,000	-46	59,569
Boeing	Philip Condit	12,000	1,331	0	4,016
Kimberly-Clark	Wayne Sanders	5,500	1,186	-30	5,660
Mattel	Jill Barad	3,174	1,546	-49	23,900
AVERAGE			1,516	-31	

However, in each case, it's clear that the CEO is hardly hurting:

- *Business Week* reports that Electronic Data Systems CEO Lester Alberthal took home more than $12 million last year, if earnings for the exercise of stock options are included.

- Woolworth's Roger Farah earned $2.2 million in salary and bonus, on par with the average CEO pay in the survey by *Business Week.* This is quite a reward for a man that presided over the closing of the company's 117-year-old F.W. Woolworth chain of five-and-dime stores.

- Suwyn's options grant of an estimated $1.4 million made his compensation only slightly less in 1997 than in 1996.

Barbie-maker Mattel announced over 3,174 job cuts, with 2,700 workers in Mount Laurel, PA taking the biggest hit. Chairwoman Jill Barad's $23.9 million in long term compensation gave her a hefty pay hike. Perhaps Mattel should come out with a new "Pink Slip Barbie"—Barbie in a Pink Slip giving out Pink Slips. Mattel played hardball with striking workers in Indiana. Mattel's unionized workers in Fort Wayne voted to end their strike without a contract after Mattel threatened to hire permanent replacements.

Charge It to the Workers Award

With the announcement of 9,000 worker layoffs in 1997, Citicorp stuck the charges onto their workers. Citicorp said that they were conducting their layoffs despite third quarter profits of over $1.07 billion, a 14 percent increase over 1996, to ensure continued success in the global market. Wall Street applauded the layoffs, boosting the stock over 5 percent. With the newly-announced merger with Travelers Group, workers at Citicorp can expect another bumpy ride on the Wall Street roller coaster to high profit.

Crumpled Tissue Award

Kimberly Clark announced 5,000 layoffs and CEO Wayne Sanders received $6.8 million in total compensation including options grants. Kimberly Clark was involved in heated battles with its laid off workers particularly in Maine due to the lack of support the company showed for its workers during a difficult downsizing so close to the Thanksgiving holiday. As one laid off worker said at the close of his plant, "Mill life has been a way of life for this town. This is how we survived."[6]

Big Vault Award

Hugh L. McColl Jr. of NationsBank laid off 6,450 workers in 1997 and pocketed $4.5 million in salary and bonus. In April of 1998, NationsBank announced a proposed merger with BankAmerica Corp. This new merger has already triggered announcements of 8,000 additional layoffs at the newly-merged company.

Too Big for Their Britches Award

V F Corp., the famous maker of Lee and Wrangler jeans, announced 3,000 layoffs in February of 1997. CEO M.J. McDonald made over $2.2 million in salary and bonus in 1997. A year later, the company claimed record sales.

Banking on Business Award

John Grundhofer, Chairman and CEO of First Bank System (now US Bancorp), has been affectionately referred to as "Jack the Ripper." Grundhofer struck again in 1997 as he laid off 4,000 workers while taking home nearly $2.7 million in salary and bonus, a 30 percent raise over his 1996 pay.

Nickel-and-Diming the Workers Award

Woolworth's Roger Farah earned $2.2 million in salary and bonus, on par with the average corporate executive surveyed by *Business Week*. This is quite a reward for a man that presided over the layoffs of 9,200 workers in the wake of the closing of the company's 117-year-old F.W. Woolworth chain of five-and-dime stores.

II. The Downsizer Dozen

Don't Lose Your Job Without It Award

American Express announced layoffs of 3,300 workers in 1997. CEO Harvey Golub earned an incredible 224 percent increase in his take-home pay over 1996, including $27 million in options gains. His annual compensation of $33.4 million equals the total annual pay of 1,500 employees earning the average U.S. 1997 weekly wage of $424. The layoffs came in the fourth quarter of 1997, when American Express profits were up 55 percent.

The Canned-id Camera Award

Eastman Kodak downsized 20,100 workers while putting CEO compensation through the enlarger in 1997. Kodak has already made new layoff announcements in 1998, estimating an additional 16,600 layoffs by 1999.[5] CEO George Fisher—whose total compensation was $17.0 million—didn't take a bonus in 1997, but he received stock option grants worth an estimated $60 million.

U.S. Workers Betrayal Award

The U.S. Worker Betrayal Award goes to Fruit of the Loom CEO William Farley who downsized 7,700 U.S. workers in 1997. The main reason for these layoffs, Fruit of the Loom claims, was the repercussions of NAFTA. U.S. workers earn on average $8.00 to $10.00 an hour in plants in Louisiana and Kentucky, while overseas Fruit of the Loom workers can be paid as little as 29 cents an hour in Haiti or $1.00 an hour in Mexico. Farley's loyalty to his own company also came into question in June 1997, as he sold more than 800,000 shares of his own Fruit of the Loom stock just weeks before the company announced a disastrous second quarter. This sale made Farley some $28.6 million. Many other stockholders felt that Farley's moves were quite inappropriate. Farley elected to forgo his salary in 1997 but instead took 940,000 options grants with an estimated value of $16.2 million.

Job Shredder Award

International Paper Company announced plans to lay off 9,215 workers in July 1997. This downsizing amounted to ten percent of their entire workforce. International Paper's CEO, John T. Dillon, was rewarded for his efforts with a 140 percent increase in salary and bonuses. The company's shareholders, led by Dillon, watched their shares rise 9.6 percent immediately following the announcement.

Putting Workers Through the Wringer Award

Whirlpool Corporation announced 4,700 layoffs and gave CEO David Whitwam a 47 percent pay hike. Adding in long-term compensation and exercised stock options, Whitwam walked away with a whopping 133 percent pay hike. Workers at Whirlpool got a little muddied in the transition. In January of 1998 Whirlpool announced additional layoffs of 3,200 workers.

Pink Slip Barbie Award

Company	Top Executive	Estimated U.S. Job Cuts[10]	1997 Salary + Bonus ($thou)	% Change From 1996
General Electric	John Welch, Jr.	2,415	8,069	28
Anchor Glass[11]	John Ghaznavi	1,283		
Hewlett Packard	Lewis Platt	1,237	1,811	-1
Sara Lee	John H. Bryan	1,098	2,259	-2
AlliedSignal	Lawrence Bossidy	1,071	5,155	7
Eaton	S.R. Hardis	1,004	2,325	33
Borg-Warner Automotive	John F. Fiedler	1,000	1,025	17
Singer Furniture[12]		1,000		
Mallinckrodt	C.R. Holman	915	1,136	0
United Technologies	G. David	904	2,892	17
AVERAGE			3,084	15

IV. Leaders in Moving Jobs to Mexico Also Gain

CEOs who move jobs from the United States to Mexico or other low-wage countries typically claim that they were forced to cut labor costs in order to remain competitive. However, the top job-shifters illustrate that the "cuts in labor costs" never seem to reach the top of the corporate hierarchy.

The U.S. Department of Labor has identified 10 U.S. companies that have laid off more than 900 U.S. workers because the company decided to shift production to Mexico under the North American Free Trade Agreement (NAFTA). These workers are among more than 170,000 who have qualified for special NAFTA retraining. To become eligible, the worker must have lost his or her job because the employer moved production to Canada or Mexico or lost revenues as a result of increased imports from those countries. (The actual number of jobs lost since NAFTA went into effect January 1, 1994, is far greater, since many laid-off workers are unaware of the retraining program or do not qualify.)

The eight CEOs for which data were available made on average more than $3 million in salary and bonus in 1997—far more than the average $2.2 million earned by all executives surveyed by *Business Week.*

The Dept. of Labor has certified that 900 or more workers at these U.S. firms have lost their jobs because the company moved production to Mexico:

Chart 5. The Job-Shifters

III. Banking CEOs Benefit from the Asian Financial Crisis

Millions of workers have lost their jobs in Asia as a result of the financial crisis. As these countries cope by expanding exports, American workers are beginning to feel the pinch as well. A number of commentators have estimated that America's trade deficit is likely to grow by $100-$200 million in 1998 due to the crisis. The Economic Policy Institute suggests that even the low-end figure of $100 million will translate into a loss of 700,000 U.S. jobs.[7]

Part of the blame for the crisis lies squarely on the shoulders of the large U.S. banks that lent a great deal of the money to these Asian nations without the rigorous checks that they place on poorer Americans when they request a loan. The six U.S. banks with the largest outstanding loans to Asia include BankAmerica, Citicorp, Chase Manhattan Bank, Morgan Guaranty (a division of J.P. Morgan), Bankers Trust, and the First National Bank of Chicago. Collectively, these institutions had over $19 billion in loan exposure to Thailand, the Philippines, Indonesia and Korea when the crisis broke in June of 1997.[8]

Yet these banks are doing fine through the crisis thanks to taxpayers who have financed massive International Monetary Fund (IMF) bailout funds to these countries. Since July 1997, the U.S. Treasury Department has worked closely with the IMF to orchestrate massive bailouts to these four crisis nations to the tune of $121 billion.[9] Much of that money is going to repay U.S. and other financial institutions.

Even more outrageous is the reward system for CEOs at these banks. The top executives at these six banks fared extremely well in 1997. In terms of salary and bonus, these banking executives enjoyed an average increase of 18 percent over 1996. By comparison, average blue-collar workers in the United States got raises of only 2.8 percent. Even compared to other top executives, the bankers took home far more in salary and bonus, with pay packages totaling nearly $5 million on average, compared to $2.2 million for leading CEOs surveyed by *Business Week.*

Banking CEOs who made bad loans to Asia are personally
benefiting from decisions that have devastated millions of people

Chart 4. The Bankers

forces to launch the Campaign to Close the Wage Gap. The aim of the Campaign is to educate the public about the dangers of growing inequality and to mobilize citizens at the local level to advocate to reduce the wage gap. The campaign employs a wide variety of coordinated tactics, including local wage gap hearings, corporate shareholder resolutions, and media events.

The Campaign has taken an affirmative stance towards bills such as the Income Equity Act and the new federal minimum wage proposal. It has sought to derail unfair trade policies such as Fast Track, which would have potentially lowered wages for millions of Americans. The goal of the campaign is to impact policy changes within corporate America and on Capitol Hill.

Shareholder Action

As executive salaries continue to balloon and top CEOs attempt to inoculate themselves from the rise and fall of their own companies profits and losses, shareholders are increasingly stepping in to fight back.

Shareholder resolutions dealing with executive pay issues and compensation committee boards have become a premier way for shareholders to create a debate within corporations—and in the country at large—on excessive pay. Last year, shareholder action reached an all-time high of 127 executive compensation resolutions. As of March 1998, more than 70 resolutions have been filed this year, according to the Investor Responsibility Research Center.

One of the most promising resolutions was filed by Franklin Research and Development and United for a Fair Economy at General Electric. This resolution asks General Electric to set their own cap on executive compensation as a multiple of the pay of the lowest paid worker at GE. This resolution was prompted when General Electric's CEO John F. Welch became the 15th highest paid Chief Executive Officer in 1996. Welch was number 11 in 1997 with a total compensation package of $39.8 million.

In response to the massive downsizing at Kodak, shareholders filed a resolution that directed the Board to freeze executive pay during periods of corporate downsizing and cost cutting. The resolution also asked for a cap on executive pay and that executive pay be linked to social and environmental standards. "It maddens me when I see these top executives pulling down these obscene salaries. Hopefully this Kodak resolution will make other shareholders stop and think about the unfairness of these layoffs while management reaps the benefits," said resolution filer Helen Glenn Burlingham of Citizens Environmental Coalition and the Genesee Valley/Rochester Greens.

Last year a landmark resolution was filed at AT&T by U.S. Trust Company of Boston and the Women's Division of the United Methodist Church. It asked the company to freeze executive pay during periods of downsizing. The resolution

Company	Top Executive	1997 Salary + Bonus ($thou)	% Change From 1996
BankAmerica	David Coulter	5,238	48
Citicorp	John Reed	4,000	15
Chase Manhattan	Walter Shipley	6,148	9
JP Morgan (Morgan Guaranty)	Douglas A. Warner III	3,042	-6
Bankers Trust	Frank Newman	10,937	23
First National Bank of Chicago	Kevin T. Reardon	460	8
AVERAGE		4,971	16

GE's Welch Earned More than his 10,000 Mexican Workers Combined

The leading job-shifter, General Electric's CEO John Welch, also came in first in compensation. Welch made more than $8 million in salary and bonus. Last year he also exercised stock options worth nearly $32 million, for a total of $39,825,000 in take-home pay. Contrast that with the earnings of GE's 10,000 workers in Mexico, where the average hourly compensation cost per worker was $1.50 in 1996 (the most recent year for which data are available).[13] At this rate, GE's 10,000 Mexican workers would make—combined—about $36 million annually—less than Welch's personal pay of nearly $40 million. Computed at an hourly rate, Welch made more than $19,000 per hour last year. This means that one of his Mexican workers would have to toil for 1,277 hours to make what he makes in one hour.

V. The Response to Runaway Executive Pay is Building

Corporate spokespersons are quick to argue that multi-million dollar compensation packages are good for business because they give top brass incentives to perform. But at what point does the widening canyon between the rich and everybody else become so large that our social fabric starts to fray?

A growing number of business leaders are expressing alarm. Carol Bowie, research director of Executive Compensation Advisory Services, told *The Wall Street Journal*, "You are definitely losing the linkage between pay and performance. There is no longer any risk financially to being a CEO." The *Journal* points out that "For top corporate bosses, the message seems to be: No gain, little pain."[14]

It is interesting to note that other industrialized nations have significantly smaller income gaps between top and bottom, even though they are operating in the same global economy as the United States. Most European and Asian nations manage to hold pay ratios between top and average workers to less than 30 to one.[15]

This section describes an array of public and private policies that have been proposed to close the gap between top executives and those who work for them.

The Campaign to Close the Wage Gap

In July 1997, a coalition of national religious, labor, and policy organizations joined

The average CEO makes 728 times more than a minimum-wage worker in the United States.

garnered 14 percent of shareholder votes, representing 150 million shares, the largest vote ever on a resolution of this type. Although the resolution did not pass, AT&T's new CEO Michael Armstrong acknowledged the importance of this vote by freezing the salaries of the top 450 executives when AT&T announced a new round of layoffs in January of 1998.

Raise the Federal Minimum Wage

The minimum wage has historically played an important role in raising the earnings of low-wage workers. Unfortunately, the policy debate over the issue has focused almost exclusively on the risk of job loss, despite the fact that recent research demonstrates that such employment effects are either nonexistent or negligible.[16]

Senator Edward Kennedy (D-MA) and Representative David Bonior (D-MI) have introduced legislation that would increase the federal minimum wage which currently stands at $5.15 an hour, to $6.15 by the year 2000. Their bills (S. 1805 and H.R. 3510) are quickly gaining support.

The current minimum wage gives a full-time working person a yearly income of $10,712 a year. This is not enough for a family with children to live above the poverty line. To place this salary in comparison to executive pay, the average CEO makes 728 times more than a minimum wage worker in the United States. If the minimum wage (which was enacted in 1960) had risen at the same rate as executive compensation over the past 27 years, it would now stand at $40.97 an hour.

Chart 6. CEO Pay and The Minimum Wage Since 1960

	1960	1997
Average CEO total compensation (annual)[17]	$190,383	$7,800,000
Minimum wage	$1.00/hr	$5.15/hr
What minimum wage would be if it had kept pace with CEO salaries		$40.97/hr

Legislative Approaches: The Income Equity Act (H.R. 687)

Many corporate leaders reject any government regulation of CEO pay as meddling with the invisible hand of the market. The reality is that government has long been involved in executive pay issues—through the U.S. corporate tax code. The tax code currently allows businesses to deduct only "a reasonable allowance for salaries and other compensation." But the tax code neglects to define "reasonable." Corporations have seized upon this loophole within the tax code and exploited it.

Many Americans are unaware that corporations are allowed to fully deduct executive salaries, benefits and perks as a routine business expense, thereby shifting even more of the tax burden from corporations to individual citizens. Recent data from the Internal Revenue Service show that tax-deductible executive pay climbed (before inflation) from $109 billion in 1980 to $307.6 billion in 1995, a rise of 182 percent.[18]

In 1993, Congress attempted to cap the deductibility of executive pay to a maximum of $1 million. But the law applied only to the top five highest-paid executives in public firms and only capped non-performance based salaries. In response to this loophole, many corporations passed resolutions making all compensation performance-based and shifted much of their top executive pay from base salary to stock options and bonuses linked to performance.

Many have called for a closing of this loophole. The leading proposal on this issue in Congress today comes from Congressman Martin Olav Sabo (D-MN) who filed legislation that clearly defines a reasonable deduction. Representative Sabo's Income Equity Act (H.R. 687) would deny corporations tax deductions for executive compensation that exceeds 25 times the pay of a firm's lowest-paid full-time worker.

Using 1998 data, IPS and United for a Fair Economy calculate that the 365 U.S. firms listed in the *Business Week* salary survey would pay up to **$493 million** in increased income taxes if the deduction was reformed in a way that capped the corporate deductibility of the salary and bonus of just their **top two** executives.[19]

Labor and Executive Pay

The AFL-CIO launched its Executive Paywatch website in April of 1997. The website has been a resounding success, reaching both workers on the assembly line floor and CEOs in many of the top corporate board rooms. The new improved 1998 website allows workers to send e-mail to government officials and to calculate how

	Downsizer	Announced Layoffs
1	Eastman Kodak	20,100
2	Boeing	12,000
3	International Paper	9,215
4	Woolworth	9,200
5	Citicorp	9,000
6	Montgomery Ward[a]	8,100
7	Fruit of the Loom[b]	7,700
8	Levi Strauss[c]	7,400
9	General Motors[d]	7,325
10	NationsBank	6,450
11	Kimberly-Clark	5,500
12	Service Merchandise	4,810
13	Whirlpool	4,700
14	Stanley Works[a]	4,650
15	Apple Computer[a]	4,450
16	First Bank System (now US Bancorp)	4,000
17	Caliber System[d]	4,000
18	Louisiana Pacific	3,560
19	McCrory Corp.[c]	3,520
20	Hasbro	3,500
21	Electronic Data Systems	3,400
22	American Express	3,300
23	WMX Technologies (now Waste Management)[a]	3,200
24	Mattel	3,174
25	Food Lion[d]	3,100
26	V F Corp.	3,000
	TOTAL	158,354

Source: Challenger, Gray and Christmas

Companies in bold are included in this survey. Other firms were not included for the following reasons:

a. New CEO in 1997. Comparison with 1996 compensation data not possible.

b. CEO elected to forgo salary in 1997 in exchange for 940,000 options granted with an estimated value of $16,186,000.

c. Corporation is privately-held and thus not required to report compensation data to the Securities and Exchange Commission.

d. Proxy not filed as of publication date.

Endnotes

1. Twenty-six firms made announcements of layoffs involving more than 3,000 workers in 1997. For ten of these, meaningful executive compensation data were

many years it would take to earn what their company's CEO makes in a year. The website is also a source of good general information on trends in executive pay over the past few years. The website can be reached at www.paywatch.org.

Conclusion

The pay gap issue will not go away until effective action is taken. Unfortunately, corporations have shown for the most part that they are unwilling or unable to regulate themselves. The American public, for its part, feels that both corporate downsizing and executive salaries are excessive. Recent polling by the Preamble Center for Public Policy in Washington, DC revealed that 70 percent of the population believes that recent trends in corporate behavior—downsizing, outsourcing, CEO pay, etc.—are motivated by greed rather than the quest for competitiveness. By the same 70 percent margin, those same Americans favored government action to promote more responsible corporate behavior.[20] Americans want to ensure that the rising tide lifts all the boats, not just the yachts.

Appendix

Chart 7: U.S. Firms That Announced Layoffs of 3,000 or More Workers in 1997

Resources

Campaigns:

In July 1997, United for a Fair Economy launched the **Campaign to Close the Wage Gap.** For an organizing kit, fact sheets, and information on signing on to the campaign as a co-sponsor, contact United for a Fair Economy at the address below.

World Wide Web:

AFL-CIO's Executive Pay Watch	http://www.paywatch.org
American Compensation Association	http://www.ahrm.org/aca/aca.htm
Bud Crystal's Executive Pay Reports	http://www.crystalreport.com
Business Week	http://www.businessweek.com
Representative Martin O. Sabo	http://www.house.gov/sabo/ie.htm
Securities and Exchange Commission	http://www.sec.gov
United for a Fair Economy	http://www.stw.org

Organizations:

AFL-CIO
Office of Investment
815 16th Street, NW
Washington, DC 20006
p: (202) 637-5244
f: (202) 508-6992

Institute for Policy Studies
733 15th Street, NW #1020
Washington, DC 20005
p: (202) 234-9382
f: (202) 387-7915

Interfaith Center on Corporate Responsibility
475 Riverside Drive
Room 550
New York , NY 10115
p: (212) 870-2293
f: (212) 870-2023

United for a Fair Economy
37 Temple Place, 5th Floor
Boston, MA 02111
p: (617) 423-2148
f: (617) 423-0191

Magazines:

Business Week

Dollars and Sense Magazine

The Wall Street Journal